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**REPORT OF THE AUDIT OF THE
FORMER BREATHITT COUNTY
SHERIFF'S SETTLEMENT - 2005 TAXES**

As of May 19, 2006

**Member Kentucky Society of CPA's
American Institute of Certified Public Accountants**

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To The People of Kentucky
Honorable Ernie Fletcher, Governor
John R. Farris, Secretary
Finance and Administration Cabinet
Honorable Harvey J. Richardson, Breathitt County Judge/Executive
Honorable John L. Turner, Former Breathitt County Sheriff
Honorable Ray Clemons, Breathitt County Sheriff
Members of the Breathitt County Fiscal Court

Independent Auditor's Report

I have audited the Former Breathitt County Sheriff's Settlement - 2005 Taxes as of May 19, 2006. This tax settlement is the responsibility of the Former Breathitt County Sheriff. My responsibility is to express an opinion on the financial statement based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in the Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

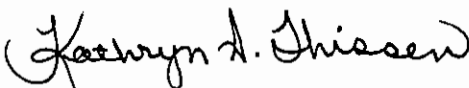
As described in Note 1, the Sheriff's office prepares the financial statement on a prescribed basis of accounting that demonstrates compliance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In my opinion, the accompanying financial statement referred to above presents fairly, in all material respects, the Former Breathitt County Sheriff's taxes charged, credited, and paid as of May 19, 2006, in conformity with the modified cash basis of accounting.

In accordance with Government Auditing Standards, I have also issued my report dated January 11, 2007, on my consideration of the Sheriff's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of my audit.

Based on the results of my audit, I have presented the accompanying comment and recommendation, included herein, which discusses the following reportable condition and material weakness:

- Former Sheriff's Office Lacks Adequate Segregation Of Duties



Kathryn A. Thissen
Certified Public Accountant

January 11, 2007

BREATHITT COUNTY
JOHN L. TURNER, FORMER SHERIFF
SHERIFF'S SETTLEMENT - 2005 TAXES

May 19, 2006

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Real Estate	\$ 243,785	\$ 433,657	\$ 860,766	\$ 307,076
Tangible Personal Property	35,846	70,315	112,925	106,059
Intangible Personal Property				34,023
Fire Protection	4,680			
Increases Through Exonerations	196	344	758	244
Franchise Corporation	31,755	61,408	103,435	
Bank Franchise	27,010			
Additional Billings	1,221	2,084	4,590	1,558
Gas Property	8,019	14,265	31,384	10,101
Oil Property	679	1,208	2,658	856
Penalties	2,665	4,714	9,382	3,305
Adjusted to Sheriff's Receipt	(48)	(69)		(73)
Gross Chargeable to Sheriff	<u>\$ 355,808</u>	<u>\$ 587,926</u>	<u>\$ 1,125,898</u>	<u>\$ 463,149</u>
<u>Credits</u>				
Discounts	\$ 3,932	\$ 6,756	\$ 13,389	\$ 6,542
Exoneration Decreases	3,809	6,965	14,348	4,784
Exoneration Decreases - Supplemental	132	221	519	167
Delinquents:				
Real Estate	15,103	26,529	53,887	18,785
Tangible Personal Property	365	717	1,315	805
Intangible Personal Property				349
Supplemental	483	802	1,885	607
Total Credits	<u>\$ 23,824</u>	<u>\$ 41,990</u>	<u>\$ 85,343</u>	<u>\$ 32,039</u>
Net Tax Yield	\$ 331,984	\$ 545,936	\$ 1,040,555	\$ 431,110
Less: Commissions *	14,397	23,202	41,622	18,610
Net Taxes Due	\$ 317,587	\$ 522,734	\$ 998,933	\$ 412,500
Taxes Paid	317,387	522,420	997,917	412,266
Refunds (Current and Prior Year)	200	314	728	234
Due District As of				
Completion of Fieldwork	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 288</u>	<u>\$ 0</u>

* See Page 3

The accompanying notes are an integral part of the financial statement.

BREATHITT COUNTY
JOHN L. TURNER, FORMER SHERIFF
SHERIFF'S SETTLEMENT – 2005 TAXES
May 19, 2006

* Commissions:

10% on	\$ 10,000
4.25% on	1,299,030
4% on	1,040,555

The accompanying notes are an integral part of the financial statement.

BREATHITT COUNTY
NOTES TO FINANCIAL STATEMENT

May 19, 2006

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue which are recognized when there is proper authorization. Taxes paid are uses of revenue which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The Former Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

BREATHITT COUNTY
NOTES TO FINANCIAL STATEMENT
May 19, 2006
(Continued)

Note 2. Deposits (Continued)

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the Sheriff's deposits may not be returned. The Former Sheriff did not have a deposit policy for custodial risk but rather follows the requirements of KRS 41.240(4). As of May 19, 2006, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

Note 3. Tax Collection Period

The real and personal property tax assessments were levied as of January 1, 2005. Property taxes were billed to finance governmental services for the year ended June 30, 2006. Liens are effective when the tax bills become delinquent. The collection period for these assessments was October 20, 2005 through May 19, 2006.

Note 4. Interest Income

The Former Breathitt County Sheriff earned \$1,143 as interest income on 2005 taxes. The Sheriff distributed the appropriate amount to the school district as required by statute, and the remainder was used to operate the Sheriff's office.

Note 5. Sheriff's 10% Add-On Fee

The Former Breathitt County Sheriff collected \$13,950 of 10% add-on fees allowed by KRS 134.430(3). This amount was used to operate the Sheriff's office.

Note 6. Advertising Costs And Fees

The Former Breathitt County Sheriff collected \$1,122 of advertising costs and \$2,028 of advertising fees allowed by KRS 424.330(1) and KRS 134.440(2). The Sheriff should distribute the advertising costs to the county as required by statute, and the advertising fees were used to operate the Former Sheriff's office.

COMMENT AND RECOMMENDATION

BREATHITT COUNTY
JOHN L. TURNER, FORMER SHERIFF
COMMENT AND RECOMMENDATION

As of May 19, 2006

STATE LAWS AND REGULATIONS:

None.

INTERNAL CONTROL – REPORTABLE CONDITION AND MATERIAL WEAKNESS:

Former Sheriff's Office Lacks Adequate Segregation Of Duties

I noted the lack of an adequate segregation of duties for the internal control structure and its operation that, in my judgment, is a reportable condition. Management has considered and rejected additional cost when setting budget limits on spending for salaries and therefore accepts the degree of risk for a lack of an adequate segregation of duties. However, the lack of an adequate segregation of duties is hereby noted as a reportable condition and a material weakness pursuant to professional auditing standards.

Auditor discussed recommendations with the Former Sheriff relating to compensating controls to help offset the lack of segregation of duties which included the following:

- Cash recounted and deposited by the official
- Agree monthly tax reports to revenue and expenditure ledgers
- Agree daily tax collection totals to revenue ledger and deposit slip
- Official delivers tax distribution checks and monthly tax reports to taxing districts and receives a signed receipt documenting delivery

Sheriff's Response:

Due to limited staff, Sheriff was unable to establish an adequate segregation of duties.

PRIOR YEAR:

- Sheriff's Office Lacks Adequate Segregation Of Duties

This comment has not been corrected and is repeated in the current year audit.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Kathryn A. Thissen
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The Honorable Harvey J. Richardson, Breathitt County Judge/Executive
Honorable John L. Turner, Former Breathitt County Sheriff
Honorable Ray Clemons, Breathitt County Sheriff
Members of the Breathitt County Fiscal Court

Report On Internal Control Over Financial Reporting And On Compliance
And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards

I have audited the Former Breathitt County Sheriff's Settlement - 2005 Taxes as of May 19, 2006, and have issued my report thereon dated January 11, 2007. The Sheriff's financial statement is prepared in accordance with a basis of accounting other than generally accepted accounting principles. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered the Former Breathitt County Sheriff's internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinion on the financial statement and not to provide an opinion on the internal control over financial reporting. However, I noted a certain matter involving the internal control over financial reporting and its operation that I consider to be a reportable condition. Reportable conditions involve matters coming to my attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in my judgment, could adversely affect the Former Breathitt County Sheriff's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statement. The reportable condition is described in the accompanying comment and recommendation.

- **Former Sheriff's Office Lacks Adequate Segregation Of Duties**

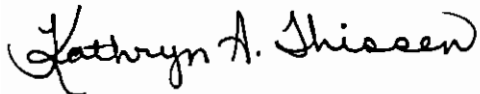
A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. My consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, I believe that the reportable condition described above is a material weakness.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Former Breathitt County Sheriff's Settlement - 2005 Taxes as of May 19, 2006 is free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

Report On Internal Control Over Financial Reporting And On Compliance
And Other Matters Based On An Audit Of The Financial Statement
Performed In Accordance With Government Auditing Standards
(Continued)

This report is intended solely for the information and use of management and the Kentucky Governor's Office for Local Development and is not intended to be and should not be used by anyone other than the specified parties.

A handwritten signature in black ink that reads "Kathryn A. Thissen". The signature is written in a cursive style with a large initial 'K'.

Kathryn A. Thissen
Certified Public Accountant

January 11, 2007